

Message Text

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PAGE 01 KUWAIT 04485 01 OF 02 121517Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----081027 121520Z /45

O R 121442Z AUG 78
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC IMMEDIATE 1591
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMEMBASSY BONN
AMEMBASSY CARACAS
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA
AMEMBASSY BRUSSELS
USINT BAGHDAD

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 4485

EXDIS

BRUSSELS FOR USEEC

PARIS FOR OECD

DEPT PASS TREASURY FOR UNDER SECRETARY SOLOMON
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DEPT FOR NEA/ARP FOR AMBASSADOR TWINAM

E.O. 11652: GDS
TAGS: ENRG, OPEC, KU
SUBJ: POSSIBLE OPEC MEETING IN FALL

REF: (A) STATE 204324 (NOTAL), (B) KUWAIT 4216

1. AFTER ALLUDING TO THE DIFFERENCE BETWEEN THE CLIMATE IN CALIFORNIA, WHERE I HAD SPENT MY VACATION, AND THAT OF KUWAIT AND ALSO THE PUBLICITY WHICH HE HAD RECEIVED IN THAT FAR WESTERN STATE, I DISCUSSED AUGUST 12 WITH THE MINISTER FOR OIL SHAIKH ALI KHALIFA THE QUESTION OF A POSSIBLE OPEC MEETING IN THE FALL TO DISCUSS OIL PRICES. I ASKED FIRST WHETHER THERE WOULD BE AN OPEC MEETING IN TAIF IN SEPTEMBER TO DISCUSS A POSSIBLE INCREASE OF OIL PRICES, HAVING HEARD VARIOUS REPORTS TO THIS EFFECT. THE OIL MINISTER REPLIED THAT A MEETING WAS TO BE HELD THERE, BUT UNDER OAPEC AUSPICES, TO DISCUSS THE PROBLEM OF THE ARAB MARITIME COMPANY AND ITS TANKERS AND WHAT TO DO ABOUT ITS CONTINUED FINANCIAL LOSSES.

2. I THEN ASKED WHETHER HE, AS CURRENT OPEC "PRESIDENT," WOULD CALL A MEETING THIS FALL TO DISCUSS OIL PRICES AND THE POSSIBLE USE OF A BASKET OF CURRENCIES IN THIS CONNECTION. ALI KHALIFA SAID THAT HE HAD NOT DECIDED WHETHER TO CALL SUCH A MEETING AND, THEREFORE, HAD TAKEN NO ACTION IN THIS RESPECT. HOWEVER, HE THOUGH IT WAS POSSIBLE THAT A MEETING MIGHT BE HELD IN OCTOBER TO CONSIDER THE OIL PRICE AND CURRENCY BASKET QUESTIONS.

3. IN RESPONSE TO MY QUERIES, HE INDICATED HE WAS IN FAVOR OF INCREASING THE PRICE OF OIL AND ALSO EMPLOYING A BASKET OF
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CURRENCIES TO CALCULATE OIL PRICE WHICH WOULD THEN BE QUOTED IN DOLLARS. AS TO THE EXTENT OF A PRICE INCREASE, HE THOUGHT IT COULD BE 4 TO 6 PERCENT FOR THE REMAINDER OF THE YEAR WITH ANOTHER 5 TO 10 PERCENT TO BE ADDED ON AND MADE EFFECTIVE JANUARY 1, BRINGING THE TOTAL OIL PRICE INCREASE INTO THE 10 TO 15 PERCENT RANGE.

4. IT TOLD THE OIL MINISTER THAT SUCH STEPS WOULD INDEED CAUSE A SHOCK TO THE WORLD ECONOMY AND WOULD HAVE INITIAL UNFAVORABLE EFFECT UPON THE DOLLAR. I NOTED THAT UNDER SECRETARY COOPER DURING HIS RECENT VISIT TO SAUDI ARABIA HAD EXPLAINED THE US OBJECTION TO THE CURRENCY BASKET, AND I COULD ASSURE HIM OF US OPPOSITION TO PRICE INCREASE.

5. ALI KHALIFA AGREED THAT THERE WOULD BE A SLIGHT INITIAL SHOCK TO THE DOLLAR BUT NOTED THE DOLLAR WAS ALREADY SUFFERING FROM THE NERVOUSNESS RESULTING OVER THE POSSIBLITY OF AN OIL PRICE INCREASE. ACTION IN THIS REGARD WOULD SERVE TO REMOVE THIS NERVOUSNESS. MOREOVER, ECONOMIC ANALYSES HE HAD SEEN INDICATED IT WAS BETTER FOR THE DOLLAR IF THE OIL PRICE WERE TIED TO A BASKET OF CURRENCIES. I NOTED THAT IN MY EXPERIENCE ECONOMICS WAS A VERY INEXACT SCIENCE.

NOTE BY OC/T: NOT PASSED ABOVE ADDRESSEES.

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ACTION SS-25

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-----081288 121546Z /45

O R 121442Z AUG 78
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AMEMBASSY MUSCAT
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AMEMBASSY TEHRAN
AMEMBASSY TOKYO
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA
AMEMBASSY BRUSSELS
USINT BAGHDAD

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6. I QUESTIONED WHETHER THE SAUDIS AND IRANIANS WOULD AGREE
TO ANY PRICE INCREASE BEFORE THE OPEC MEETING IN DECEMBER IN
ABU DHABI.

I UNDERSTOOD THE FORMER HAD TAKEN THE COMMITMENT
TO HOLD THE OIL PRICE LEVEL THROUGHOUT THE YEAR. SHAIKH
ALI KHALIFA BELIEVED THAT ANY SAUDI COMMITMENT WOULD HAVE
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RELATED TO THE EFFECT OF INFLATION AND THOUGH THAT THE SAUDIS WOULD BE PLACED IN A DIFFICULT POSITION IN THIS RESPECT BECAUSE THEY COULD NOT HAVE ANTICIPATED THE DOLLAR DEVALUATION.

7. THE OIL MINISTER THEN WANDERED AWAY FROM THE SUBJECT OF OIL TO THE POLITICAL QUESTION OF A SO-CALLED DANGER TO SAUDI ARABIA AND IRAN OF OVER-IDENTIFICATION WITH THE U.S. HE BELIEVED THEIR GOVERNMENTS' ACQUIESCENCE TO US WISHES WAS RESENTED BY THEIR PEOPLES AND WAS ENDANGERING THEIR REGIMES INTERNUTLY. I FIRMLY DISPUTED THIS THEORY, INDICATING THAT, IN MY VIEW, IRAN'S TROUBLES STEMMED FROM THE EXCESSIVE CONSERVATISM AND DEMAGOGIC RELIGIOUS ELEMENTS WHO WERE OPPOSING THE PROGRESS AND REFORMS WHICH THE PEOPLE REALLY WANTED. I RECALLED MY SERVICE IN IRAN AT THE TIME THE SHAH INSTITUTED A LAND REFORM PROGRAM MUCH NEEDED AND DESIRED BY THE PEOPLE AND THE STRENUOUS OPPOSITION TO IT RAISED BY THE RELIGIOUS ELEMENTS. MOREOVER, HIS THEORY BROUGHT INTO QUESTION ANY PROSPECT OF CLOSE COOPERATION BETWEEN THE US AND SAUDI ARABIA AND IRAN. WHILE THEY WERE RESPONSIVE TO SOME OF OUR WISHES, WE WERE RESPONSIVE TO MANY OF THEIRS. COOPERATION, AFTER ALL, IS A TWO-WAY STREET. THE US SOUGHT A CLOSER COOPERATION NOT ONLY WITH IRAN AND SAUDI ARABIA BUT WITH ALL THE ARAB NATIONS. CERTAINLY THERE WERE MANY INSTANCES OF US COOPERATION WITH KUWAIT. ALI KHALIFA ADMITTED THIS AND BACKED OFF THIS POLITICAL TACK AND RETURNED TO A GENERAL ECONOMIC DISCUSSION WHICH NEED NOT BE RELATED HERE.

8. FOR TREASURY: UNDER SECRETARY SOLOMON'S MESSAGE, REF A, UNFORTUNATELY ARRIVED AFTER MY MEETING WITH THE OIL MINISTER DESCRIBED ABOVE. I AM CERTAIN THERE WILL BE NUMEROUS OTHER DISCUSSIONS OF THIS SUBJECT AND I AM LOOKING FORWARD TO RECEIVING THE TREASURY'S BACKGROUND PAPER PROMISED IN REF A.

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9. COMMENT: I FEEL THAT SHAIKH ALI KHALIFA WOULD LIKE TO CONVENE A MEETING IN OCTOBER AT LEAST FOR THE PURPOSE OF INCREASING OIL PRICES. THE KUWAITIS HAVE NEVER APPRECIATED THE FREEZE FORCED ON THEM BY THE SAUDIS. I ANTICIPATE NO DECISION ON HIS DECISION WILL BE TAKEN UNTIL THE END OF RAMADAN IN EARLY SEPTEMBER. I WOULD NOT BE SURPRISED IF THE MAJORITY OF OPEC COUNTRIES SUPPORTED SUCH A MEETING. I SUGGEST THAT IT MIGHT BE WORTHWHILE TO MAKE FURTHER REPRESENTATIONS TO SAUDI ARABIA AND IRAN TO ENLIST THEIR AID IN FORESTALLING SUCH A MEETING. THIS WOULD ONLY BE A HOLDING ACTION, HOWEVER, SINCE THERE WILL UNDOUBTEDLY BE HEAVY PRESSURE ON THE SAUDIS

IN ABU DHABI IN DECEMBER TO AGREE TO A SUBSTANTIAL INCREASE IN
THE PRICE OF OIL.
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